

# Morro Bay Budget Forecast FY 2016-17 Update

City Council Study Session  
February 28, 2017

Robert Leland, Senior Advisor  
Management Partners



# Background: Management Partners

20+  
years

of service exclusively to local governments

Over  
1,500  
projects

successfully completed in 41 states

80  
associates

including generalists and subject-matter experts

3  
national  
offices

in Costa Mesa and San Jose, CA  
and Cincinnati, OH

Served  
70%

of California cities with more than 100,000 people

## Services:

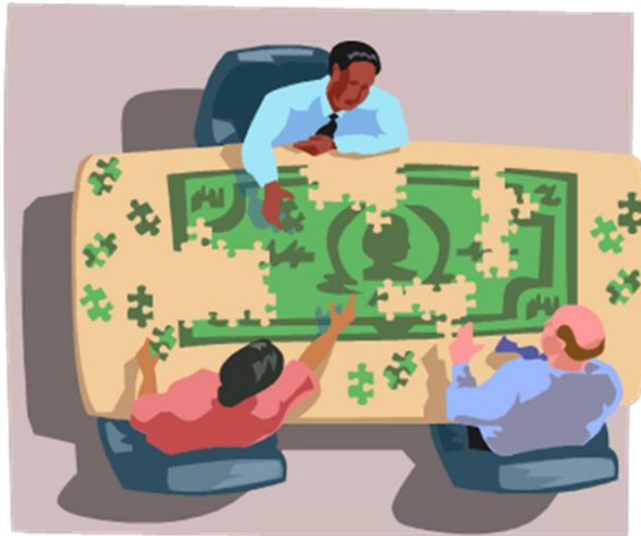
- Operations Improvement
- Strategic Planning
- Service Sharing
- Financial Planning/Budgeting
- Organization Analysis
- Organization Development
- Performance Management
- Process Improvement
- Facilitation and Training
- Executive Recruitment
- Executive Coaching

**Principal staff to bankruptcy teams in Stockton and San Bernardino**

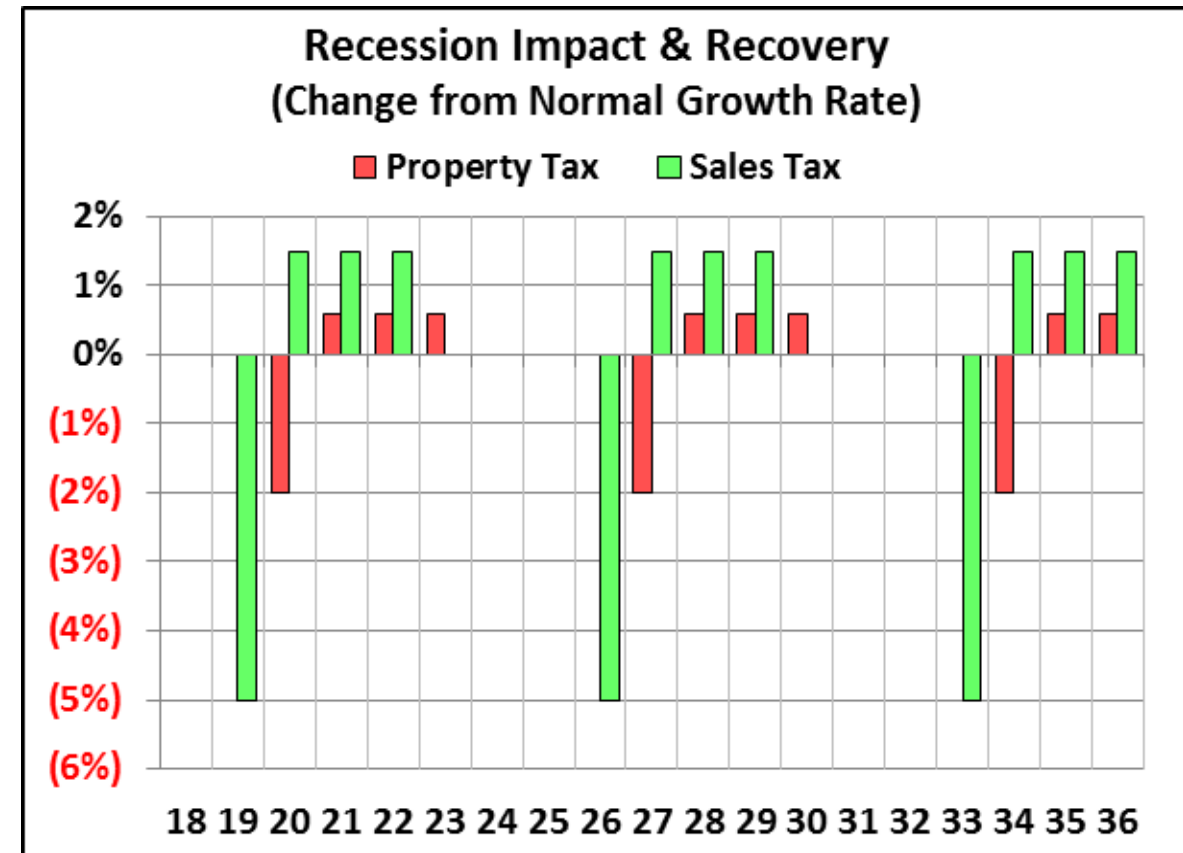
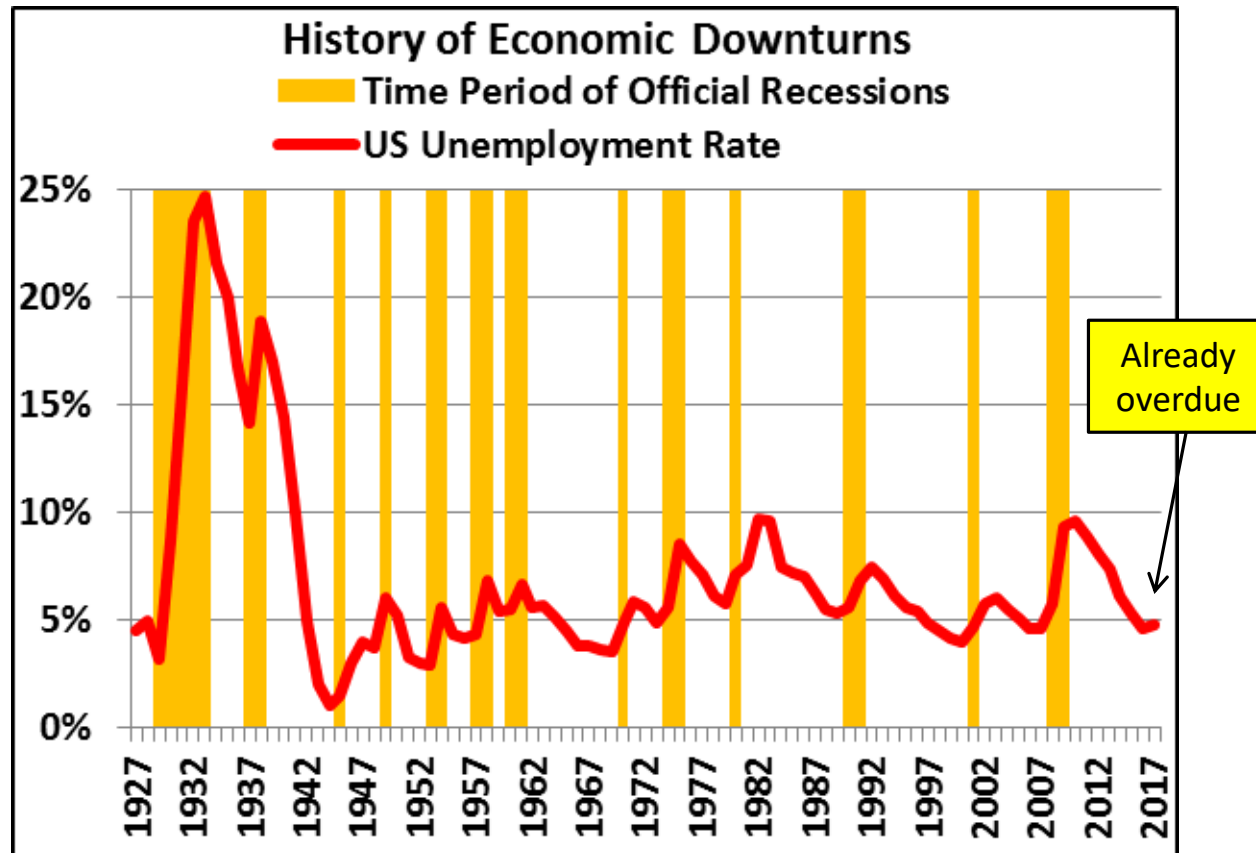
# Project Purpose

- Update last year's long-term budget forecast
  - Existing funds updated – focus on increased PERS costs
    - Third Annual Update
      - General Fund
      - Internal Service Funds
      - Capital Replacement Fund
    - Harbor Funds were added last year
  - Funds included in the forecast for the first time
    - Water
    - Sewer
    - Wastewater

# General Fund Forecast

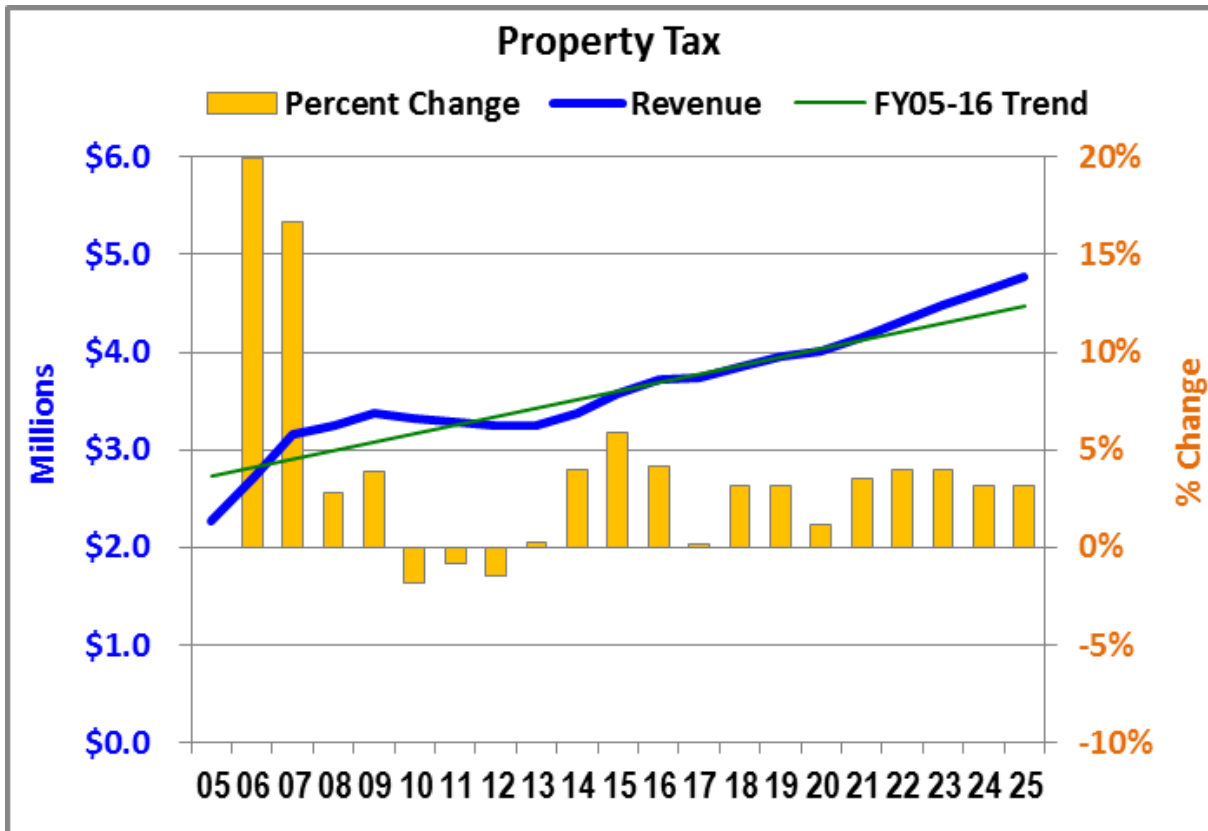


# The Next Recession



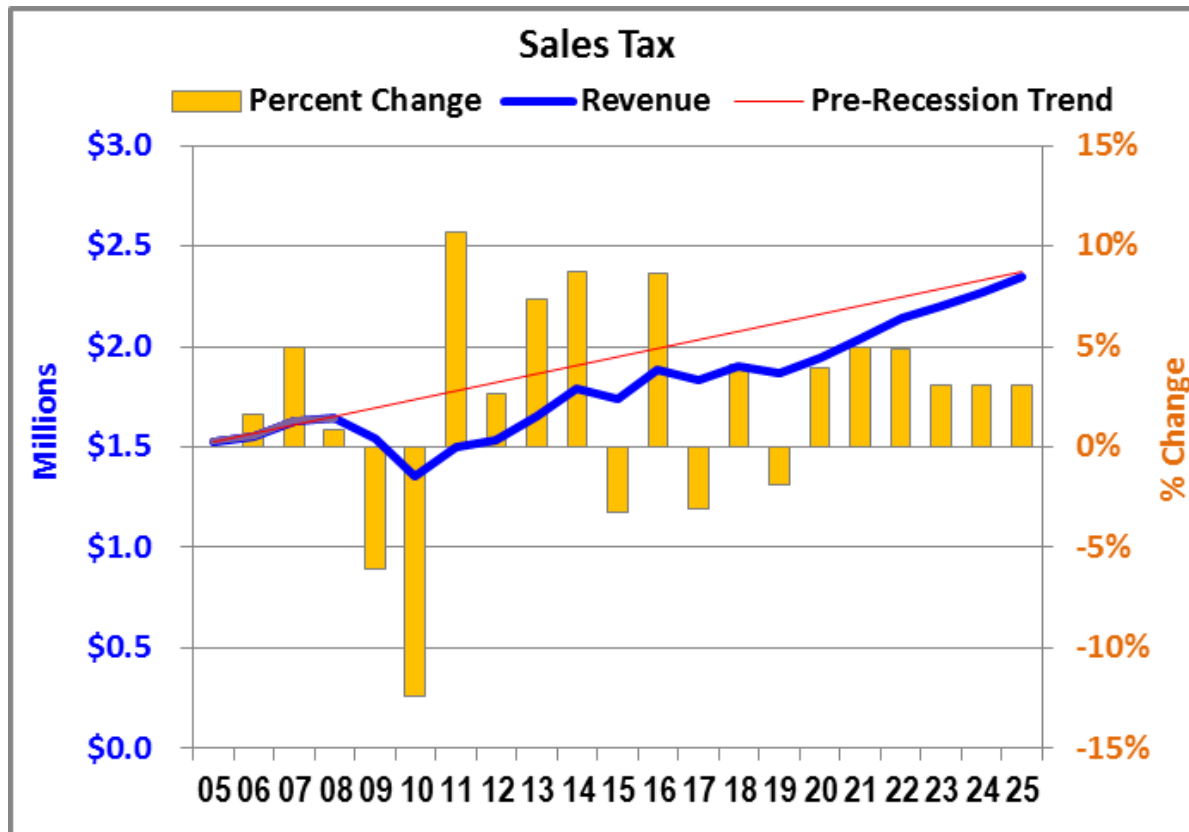
Recessions occur on average every 7 years; only question is timing and magnitude

# Property Tax

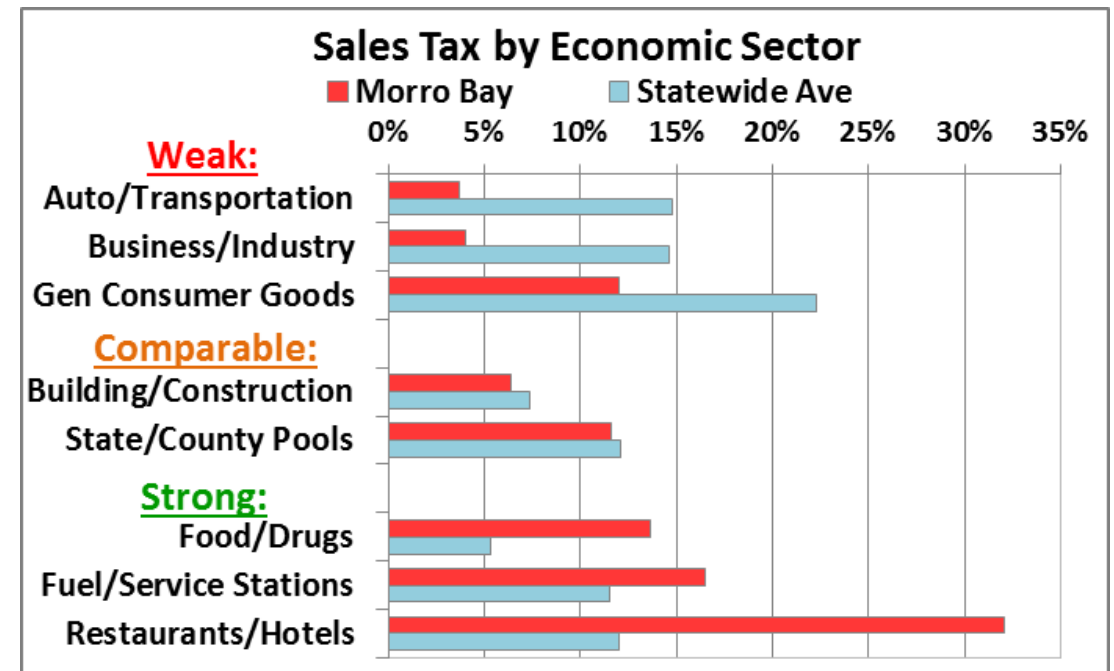


- **Growth:**  
3.3% average (pre-recession)
- **Prop 13 Inflator:**  
2% growth for 96% of existing property
- **Change in Ownership:**  
30% growth for 4% of existing property
- **Prop 8 Value Recovery:**  
Eligible recoveries have been made
- **New Construction:**  
10 new housing units and \$1.5M non-residential value added per year  
(Before any power plant renovation, new hotels or other potential economic development)

# Sales Tax



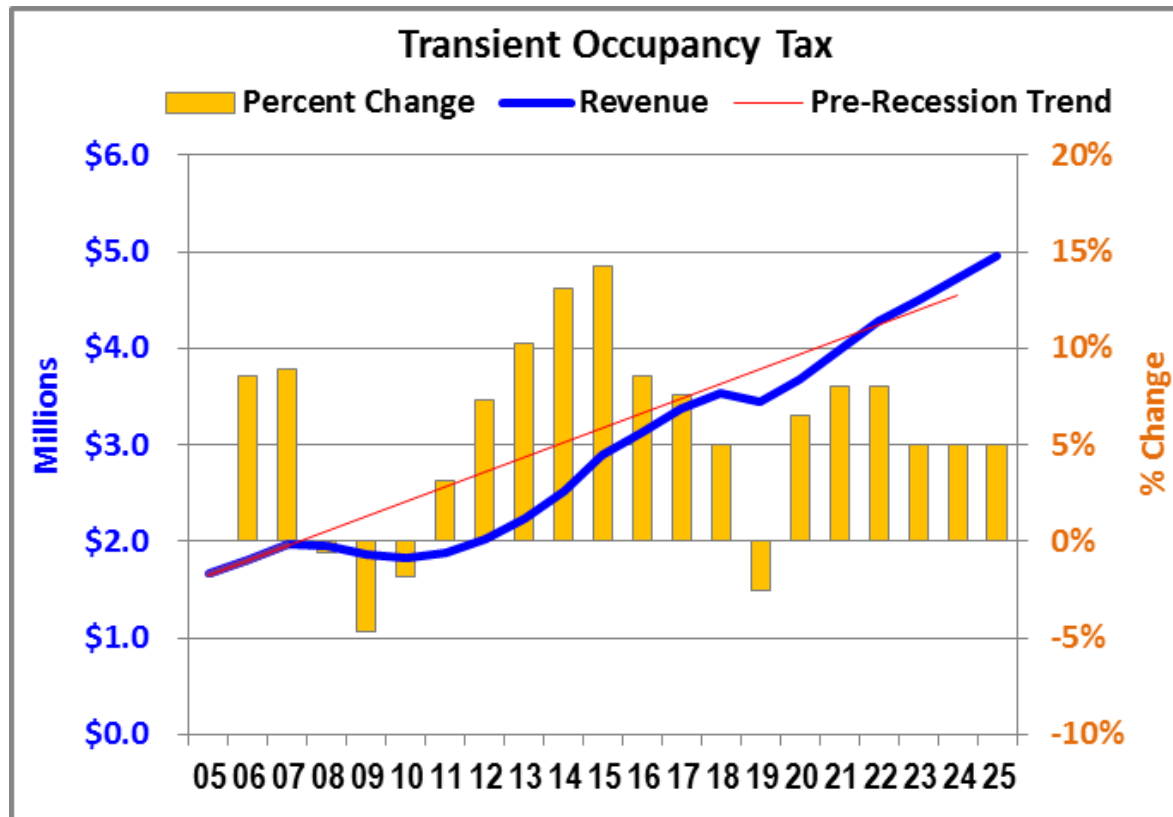
- Average annual growth of 3.3% (pre-recession)
- More affected by past recession than property tax
- HdL forecast through FY 2021-22



Allocation of sales tax by sector shows tourism impact

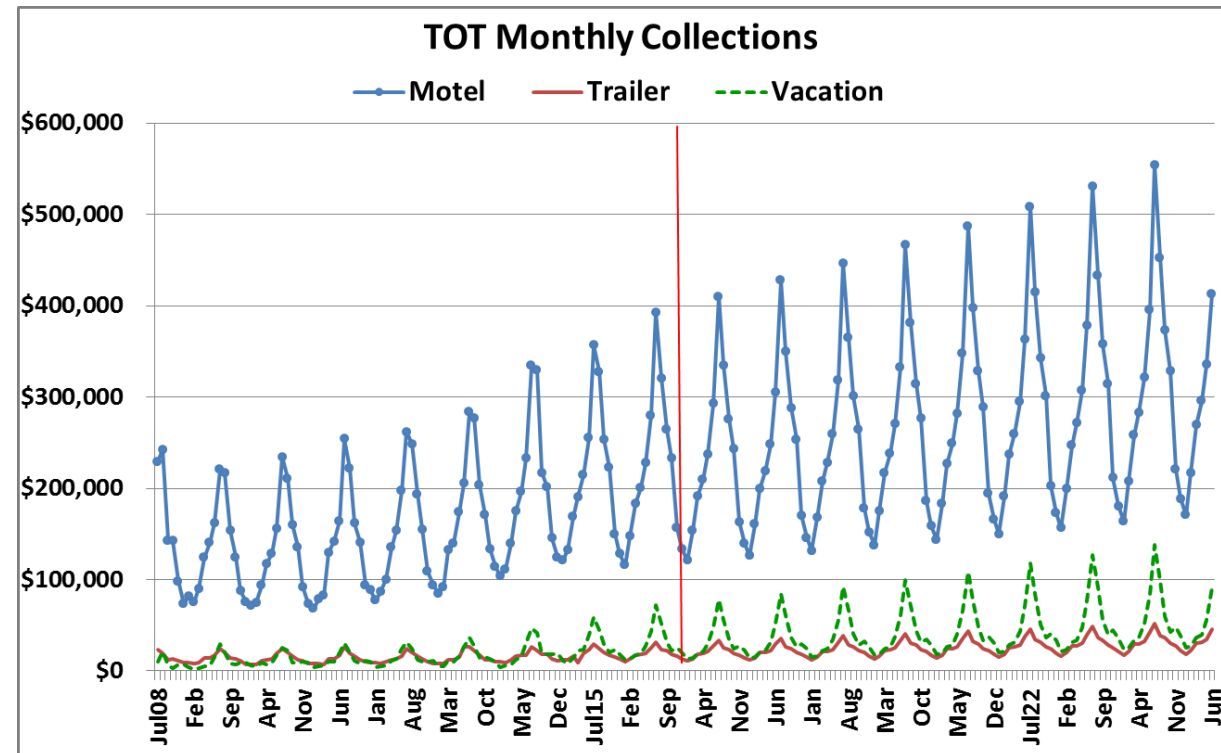


# Transient Occupancy Tax



Timing of collections emphasizes tourist season impact ➡

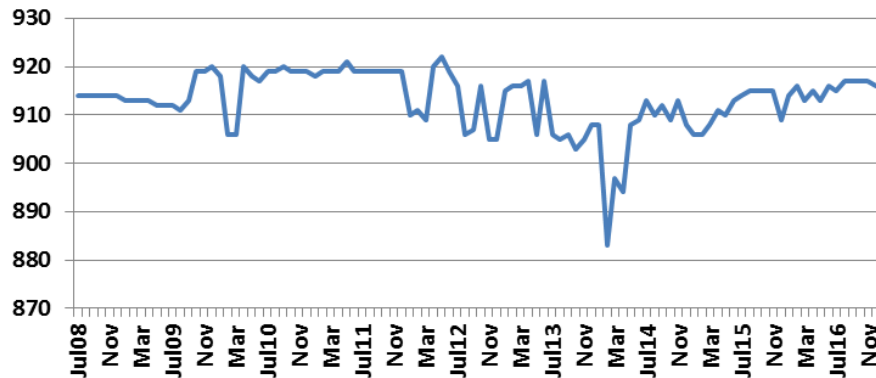
- Significant recession impact but strong recovery since 2010





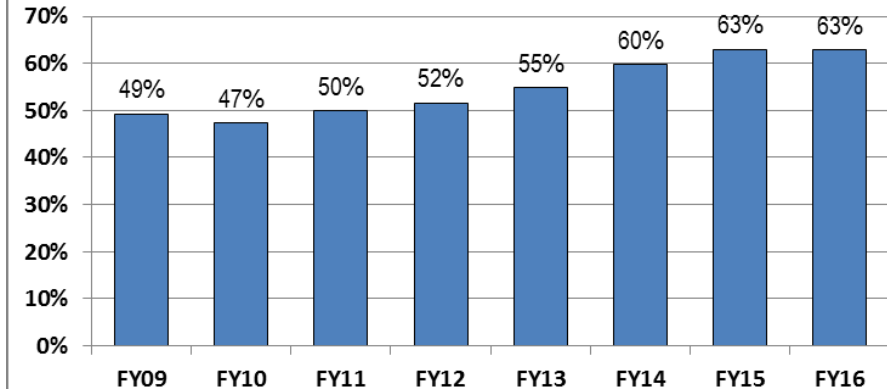
# Strong TOT Growth in Recent Years

Average Motel Rooms



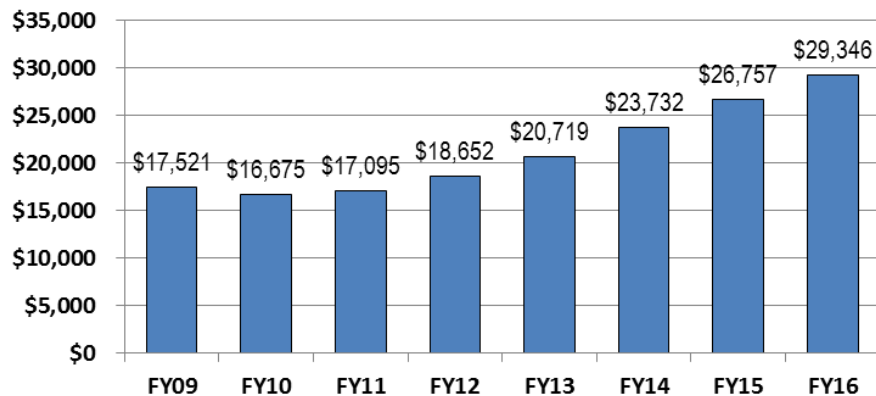
Flat average motel rooms

Annual Average Occupancy Rate



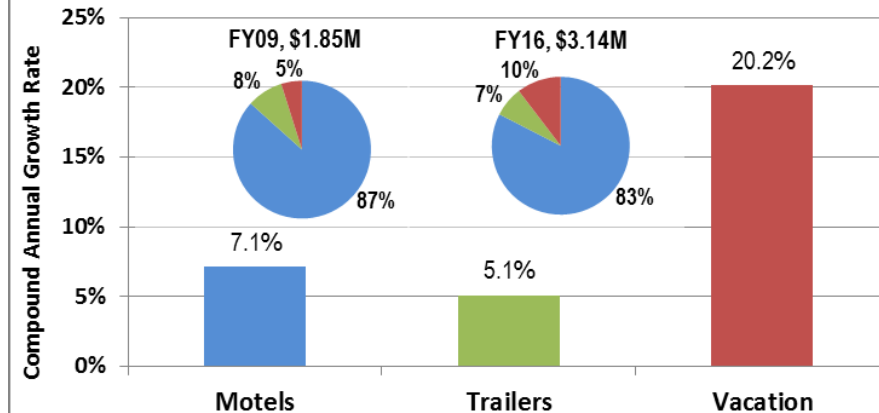
Gains in occupancy, nearing US average (65%), but flattening

Annual Motel Receipts per Room



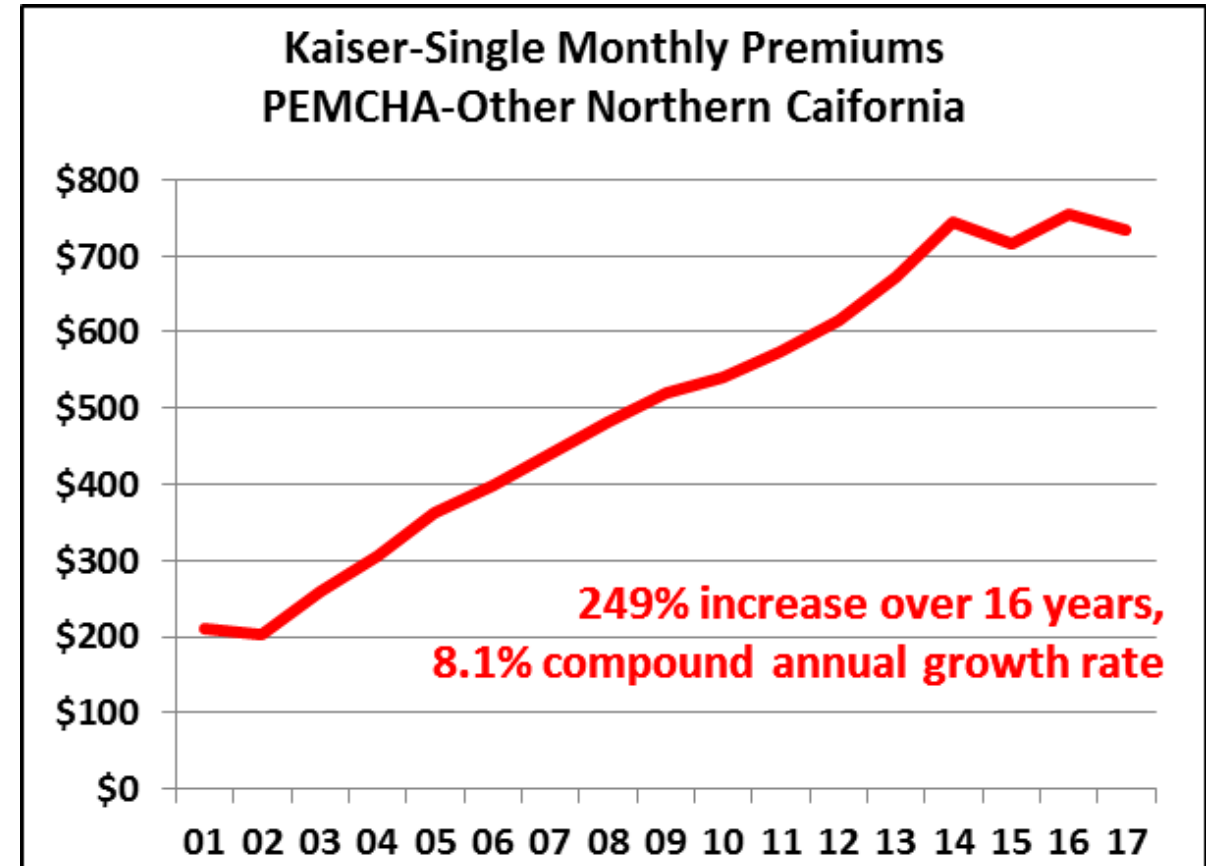
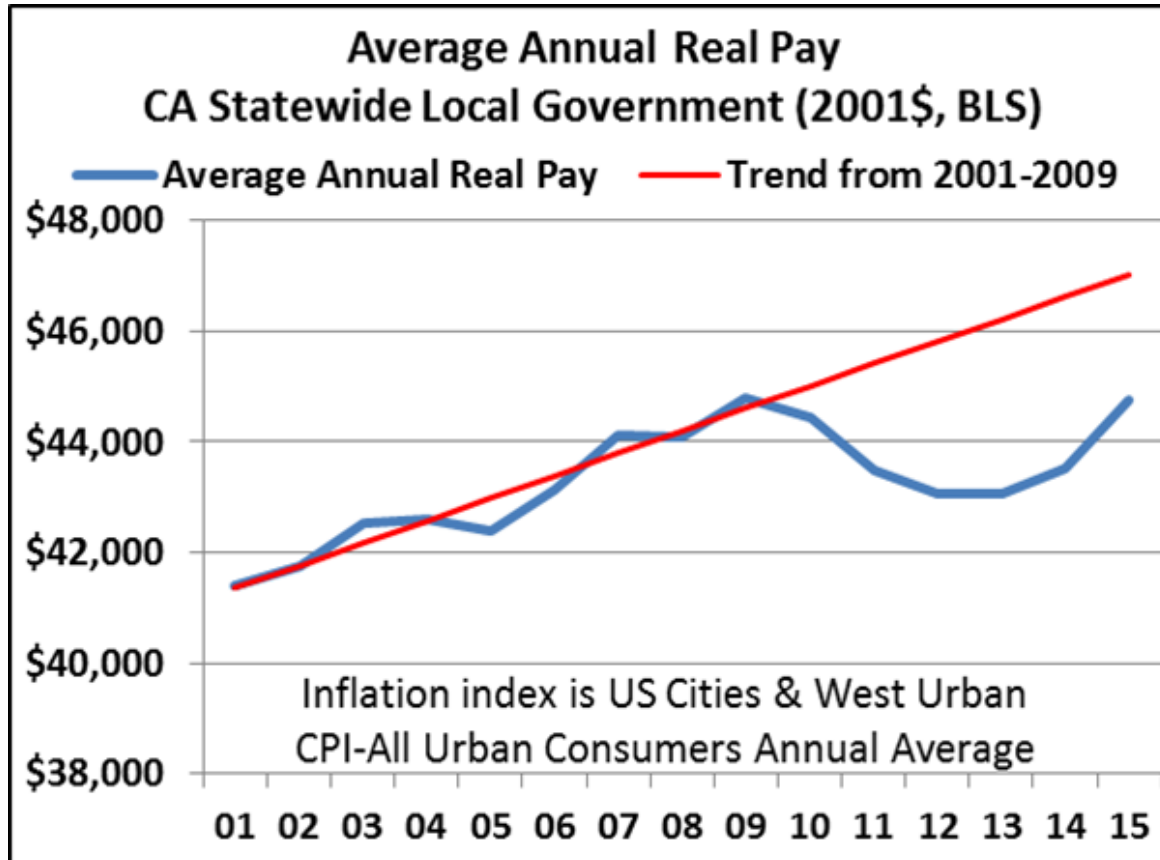
7.1% compound annual growth rate (CAGR) since 2009

Tax Elements and Growth Rate FY09 to FY16



Sizeable growth in taxes on vacation rentals

# Cost Pressures



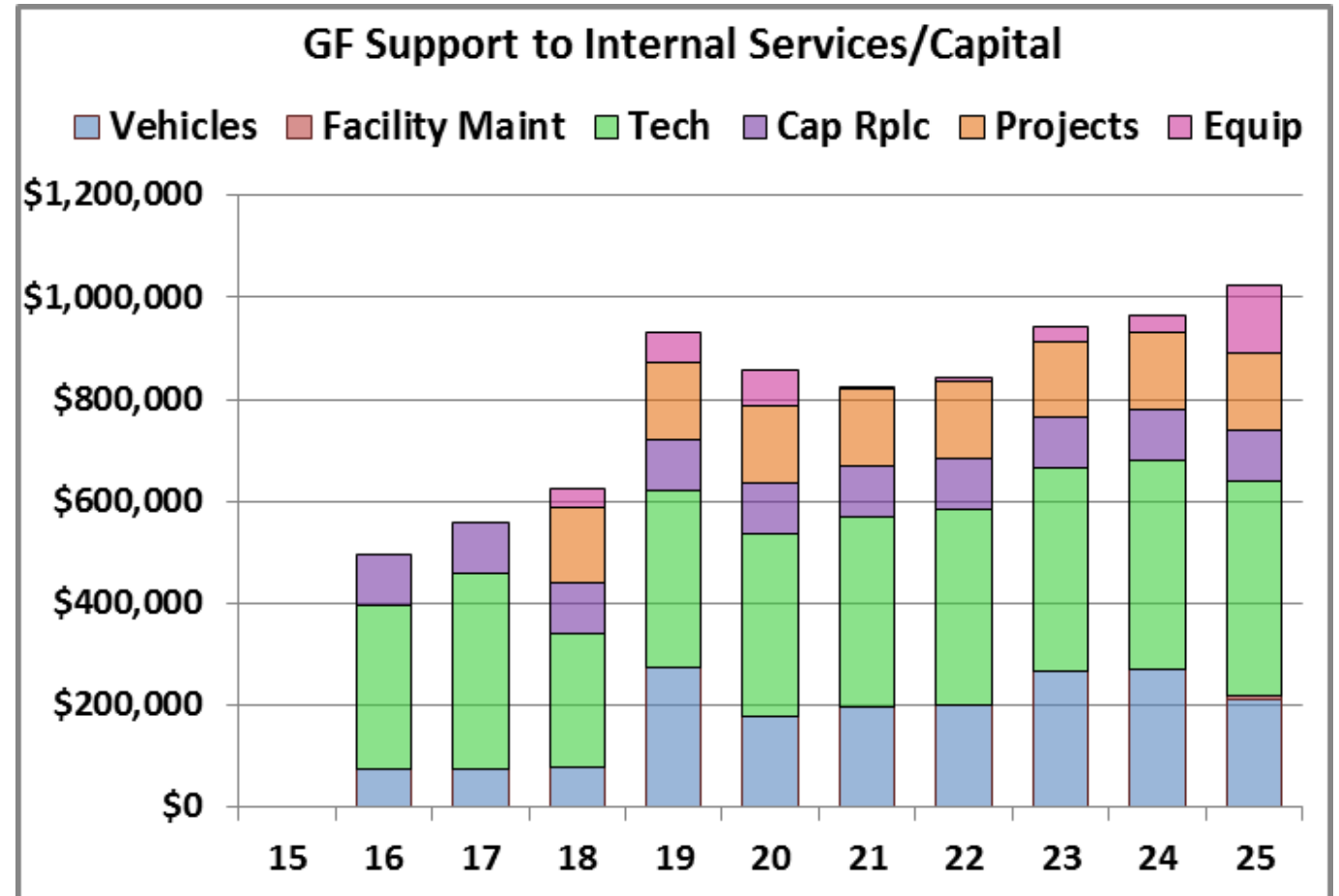
- Inflation remains low at 2%, but wage gap/PEPRA benefits create pressure for wage increases
- Health care had been rising rapidly before Affordable Care Act (ACA); unknown impact of federal law changes

# Expenditure Assumptions

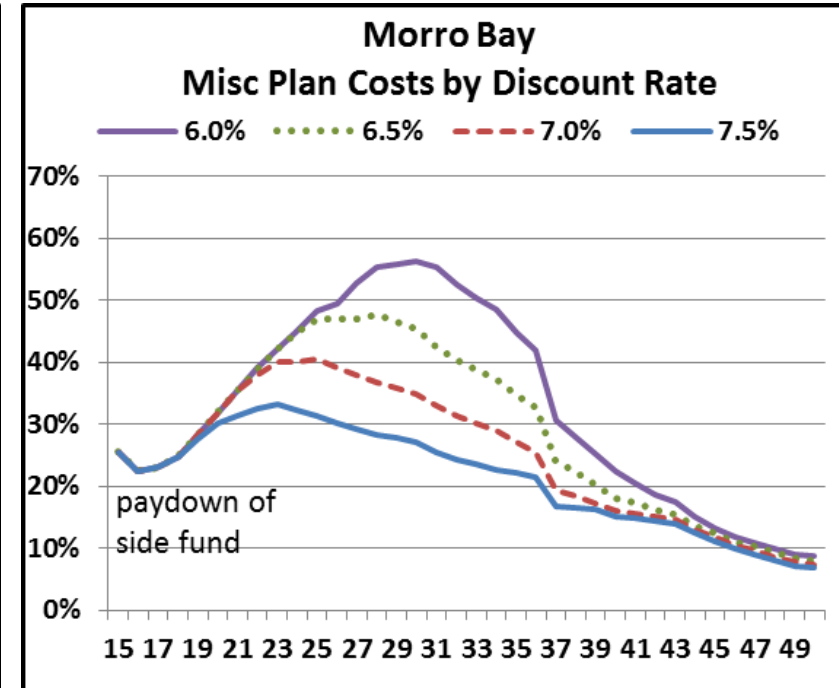
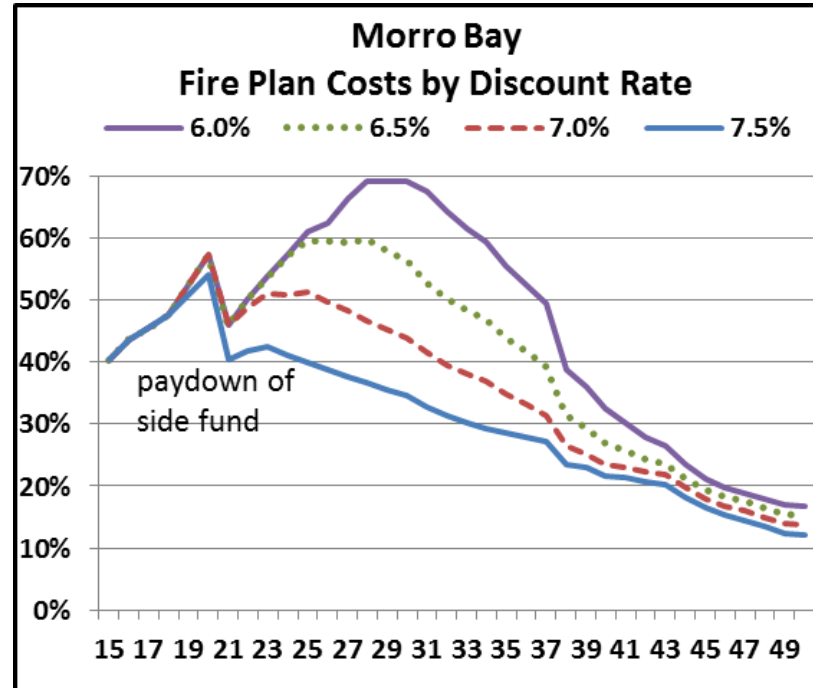
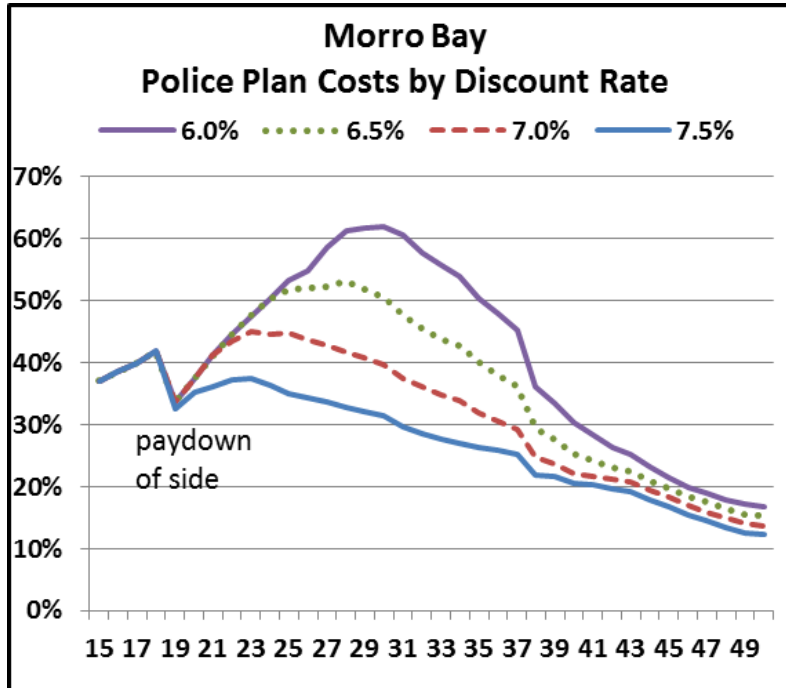
- Forecast base is FY 2016-17 budget with midyear adjustments
- Non-personnel costs and part-time:
  - Growth at CPI (2%)
- FY 2017-18 labor costs:
  - Current authorized positions and employees
  - No change in staffing levels over time
- Cost of Living Adjustments (COLAs):
  - 2% annual growth for all groups
  - Step increases
  - Turnover savings
  - 3% vacancy savings
- PERS costs estimated based on 2015 valuation reports (includes continued transition from Classic benefits to PEPRA over next 14 years):
  - PERS discount rate drops from 7.5% to 7.0% pursuant to recent CalPERS action (phased in FY 2019-26)
  - Assumes additional reduction to 6.5% based on statements by CalPERS officials (expected to be approved in February 2018, and projected to be phased-in over FY 2022-29)
- Tourism contribution: 20% of TOT exceeding \$3M (minimum of \$60K, maximum of \$300K)
- General Fund contributions to vehicles, fleet, technology and capital funds

# General Fund Support of Other Funds

- **Vehicles:**
  - \$210K/year average
  - General Fund (GF) pays 100% of need
- **Technology:**
  - \$365K/year average
  - GF pays 97% of need
- **Fire Equipment:**
  - \$167K/year average
  - GF pays 25% of need (assuming 75% comes from grants/donations)
- **Facility Maintenance:**
  - \$100K/year
  - 100% paid by rental income, GF pays 0%
- **Capital Replacement:**
  - \$100K/year
  - GF pays 100%; projects TBD
- **Projects Accumulation:**
  - \$150K/year
  - GF pays 100%; projects TBD

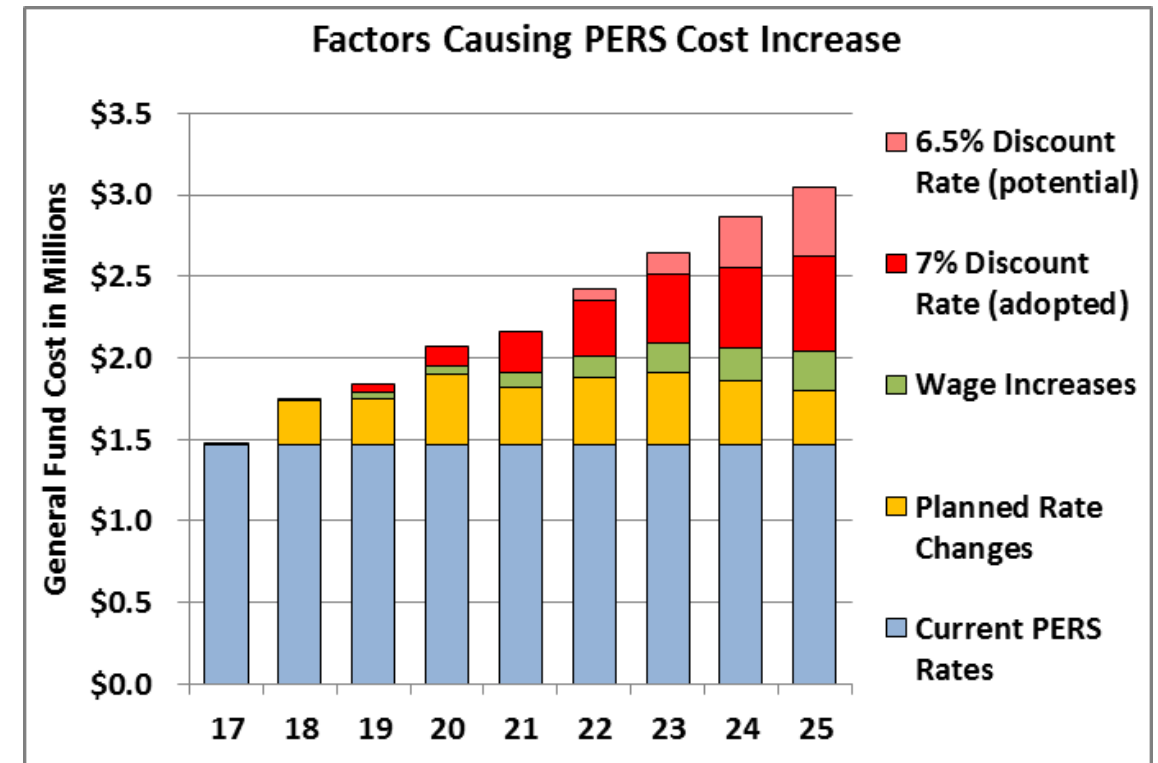
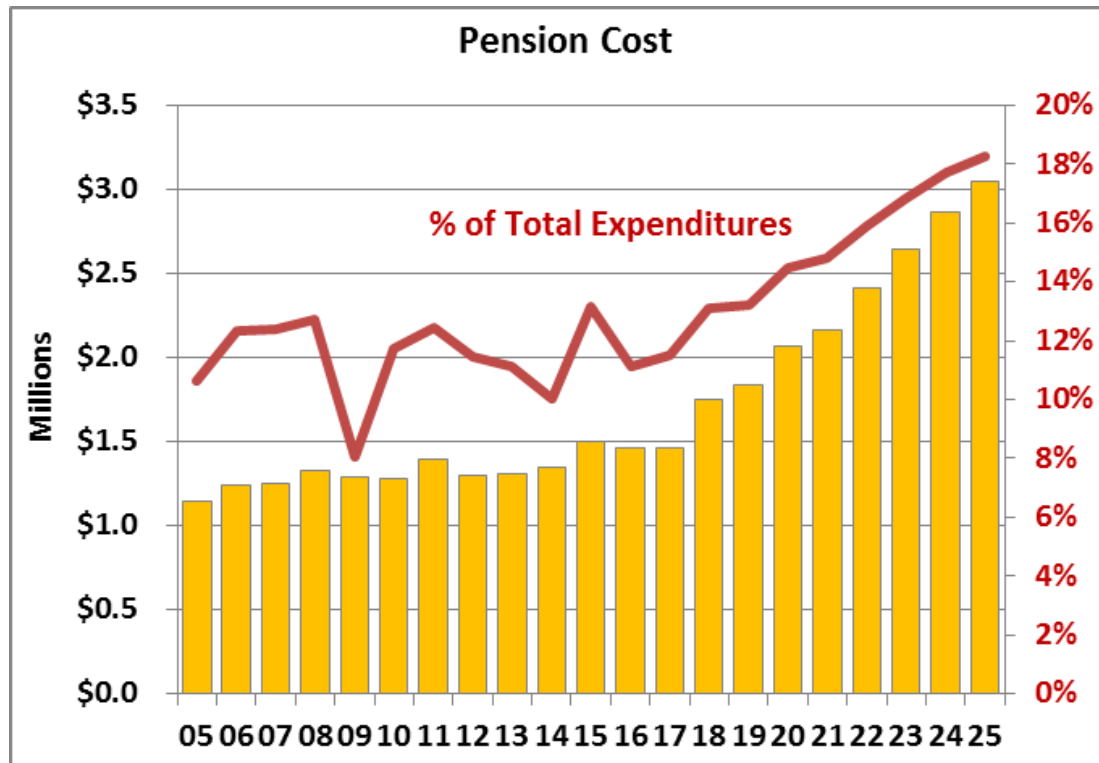


# Pension Rates With Discount Rate Reduction Impacts



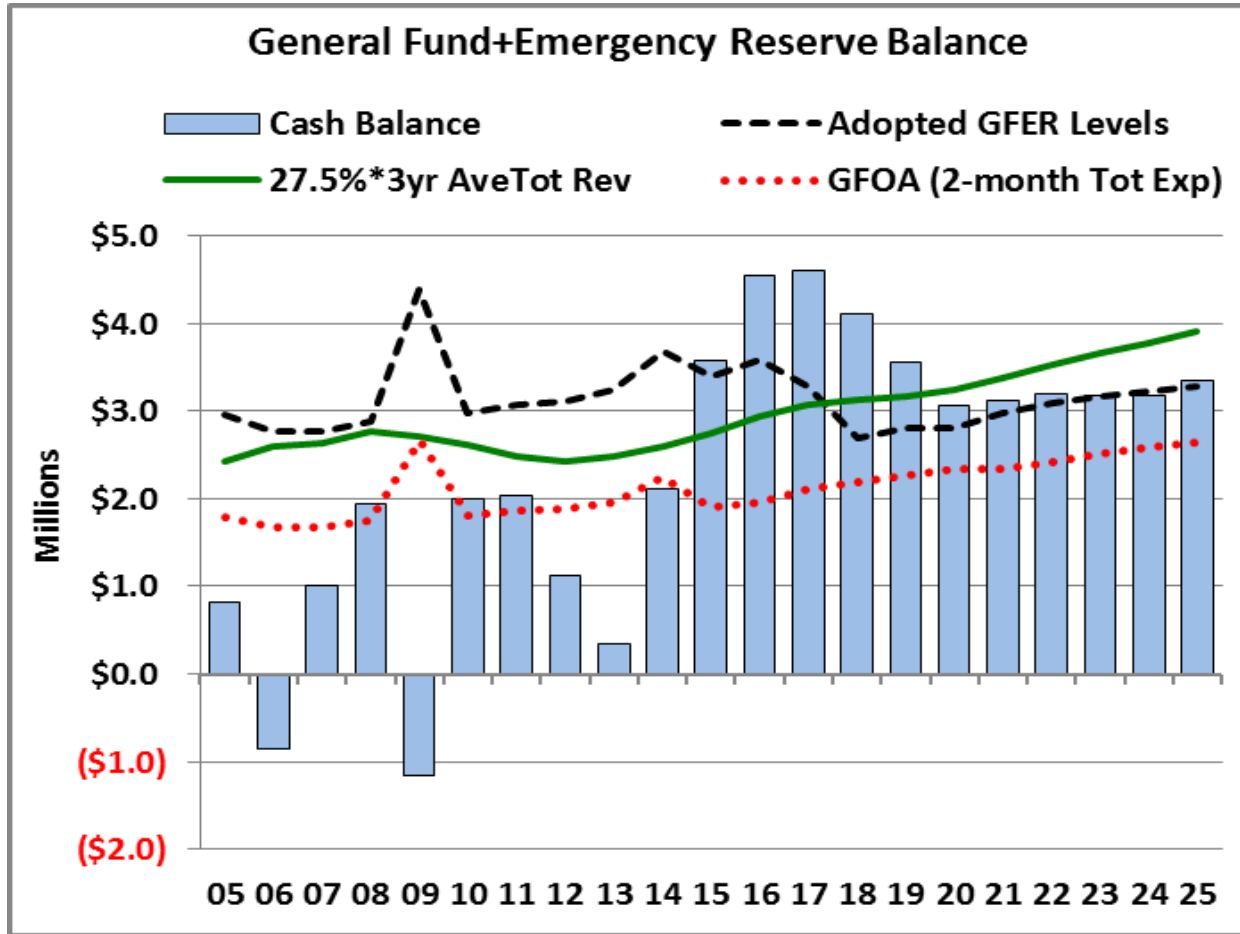
- How low will discount rates go? CalPERS officials are signaling intention to move to at least 6.5% when rate next considered in February 2018
- Payoff of Police and Fire side funds helps offset some impact of discount rate change

# Pension Burden on General Fund



Pension cost increases are absorbing City's capacity to pay for future services

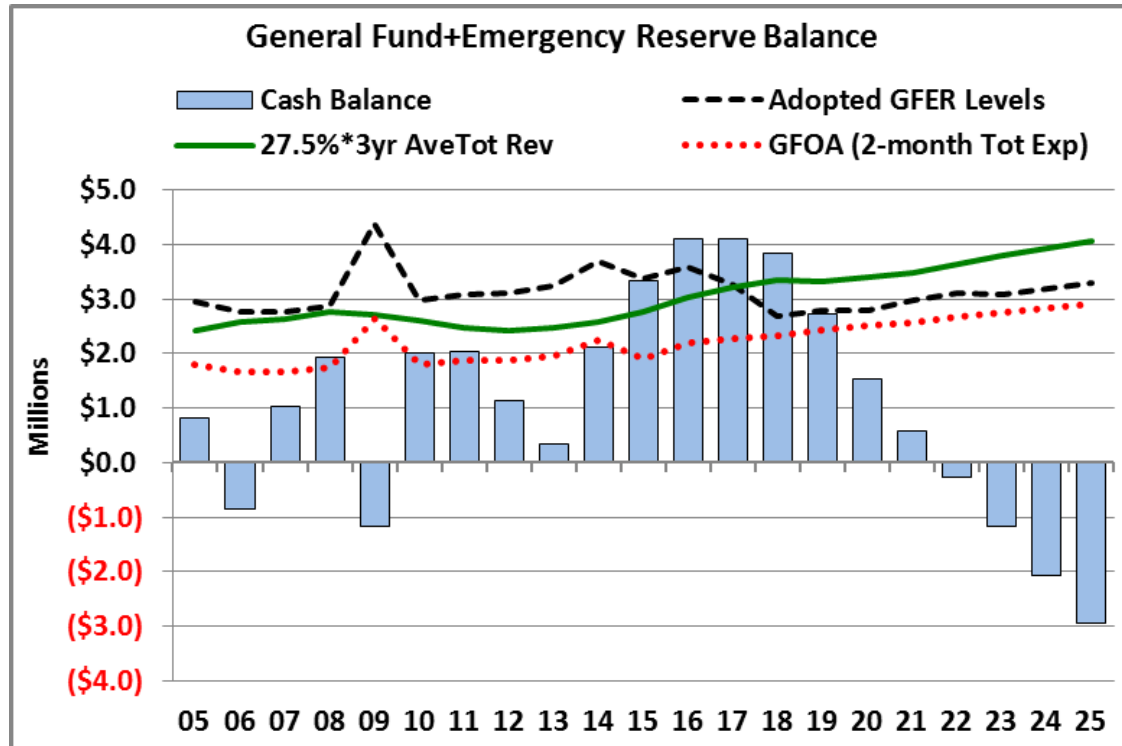
# Forecast: One Year Ago



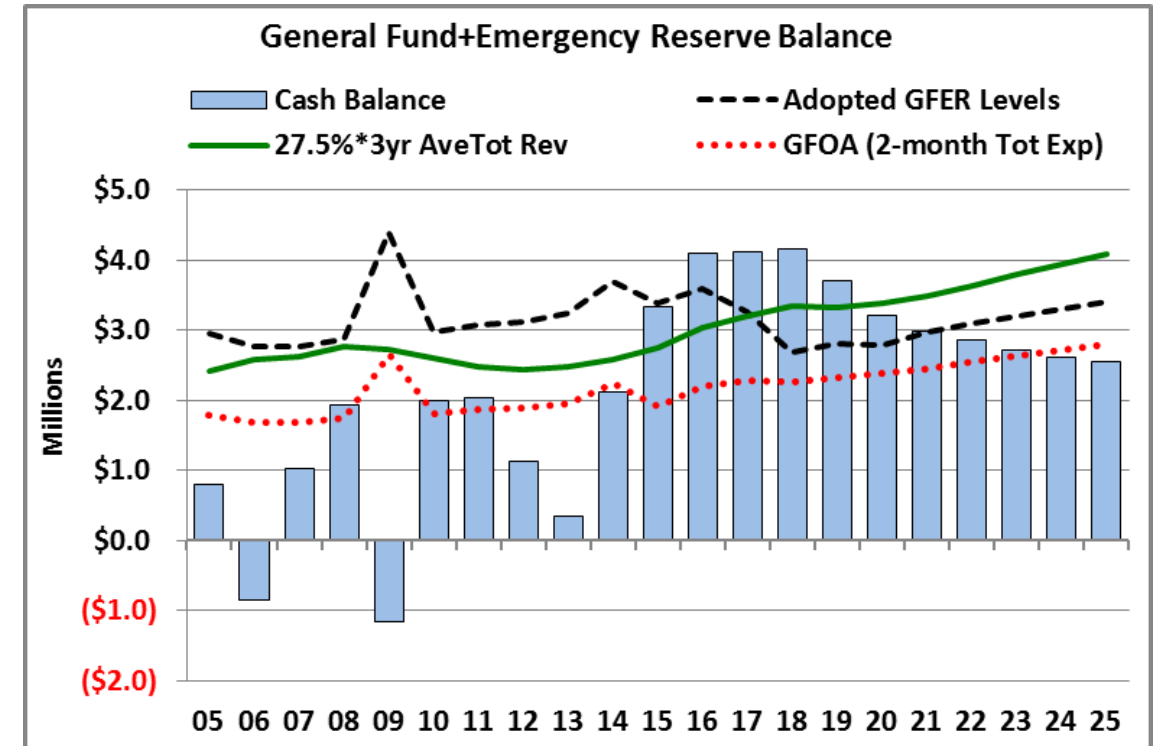
- This was last year's forecast
- Before PERS discount rate reduction
- Planned for 3 years' use of reserves
- Balance right in line with adopted reserve goal

# Net Impact on Balance

## (After PERS Changes, Before Economic Development Efforts)



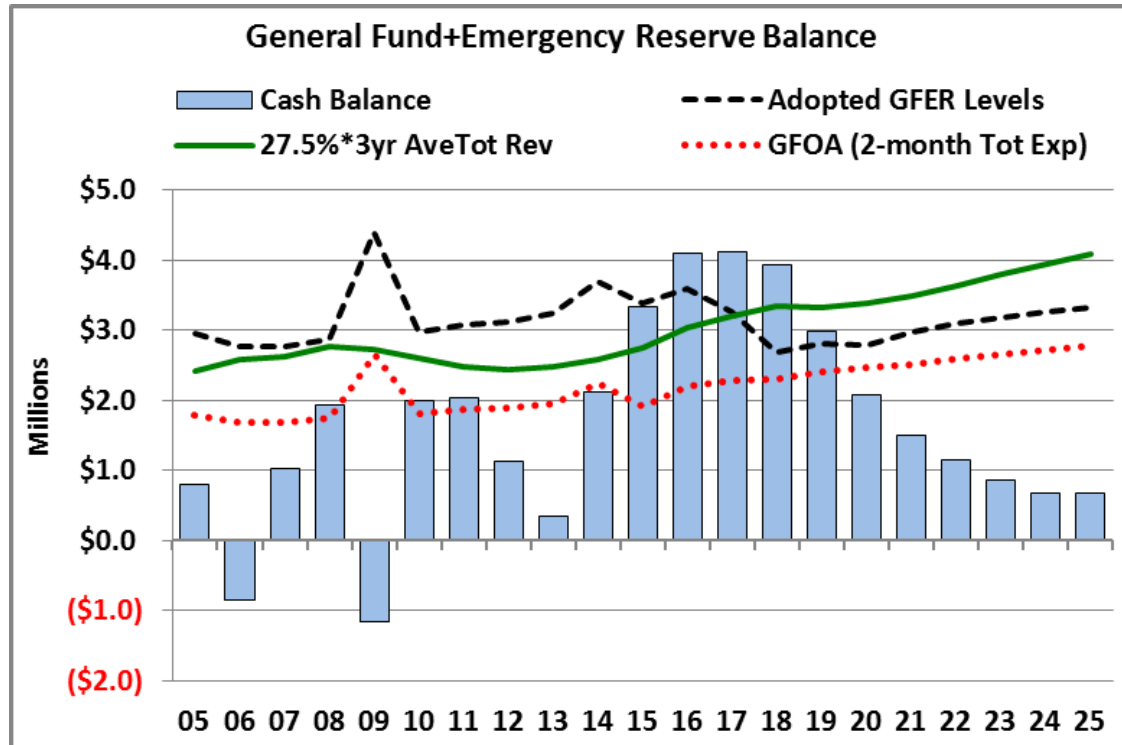
- **Without Corrective Actions:** accelerating decline in balance with deficit starting in FY 2022-23
- PERS costs continue to rise through FY 2028-29



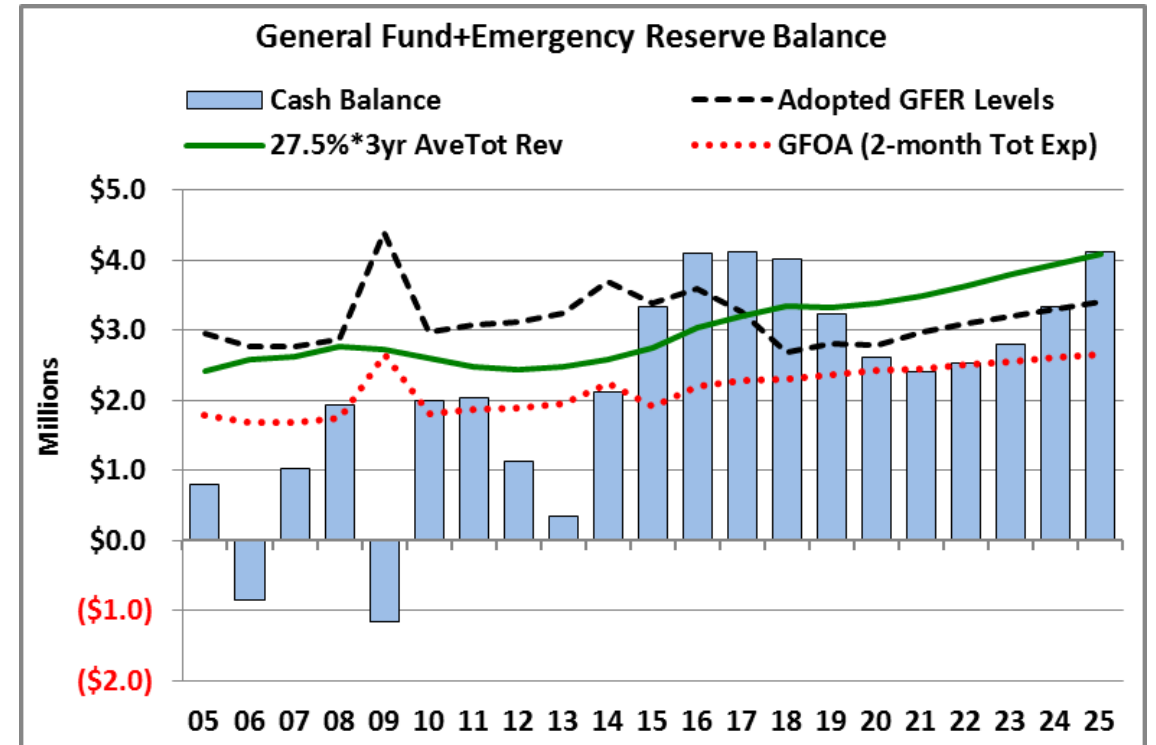
- **Corrective Actions (starting in FY 2017-18):** \$650K in spending reductions (-4.5%) or added revenue phased in over two years
- City must still plan for higher pension contributions due to further reduction in PERS discount rate



# Alternate Labor Growth Rates



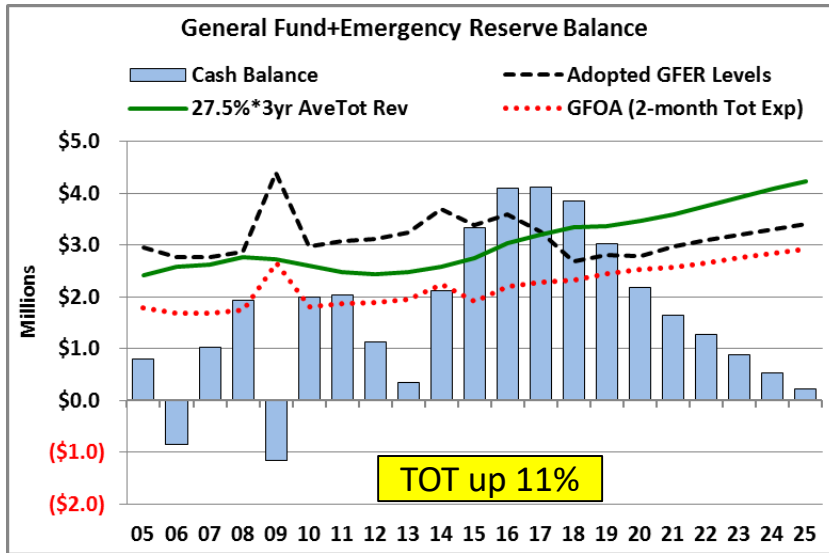
- 1% annual wage increase
- No budget correction actions, and before economic development efforts



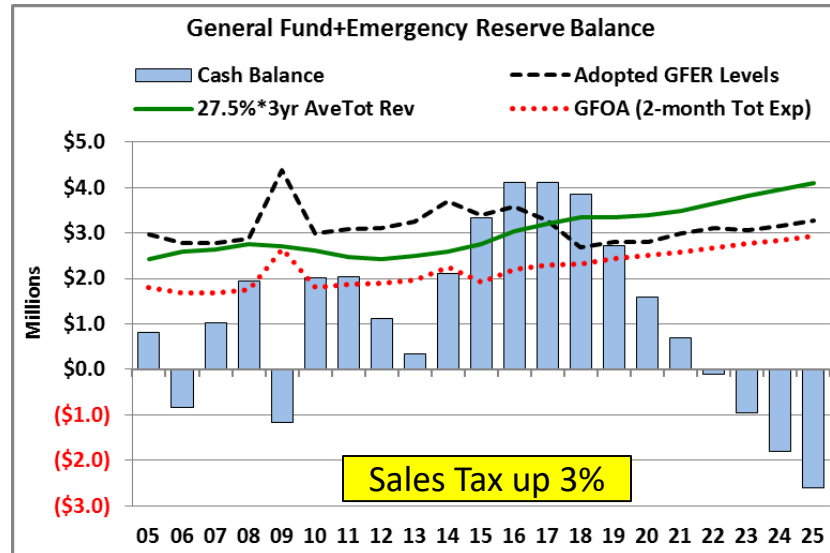
- 0% annual wage increase
- No budget correction actions, and before economic development efforts

# Examples of Potential Economic Development

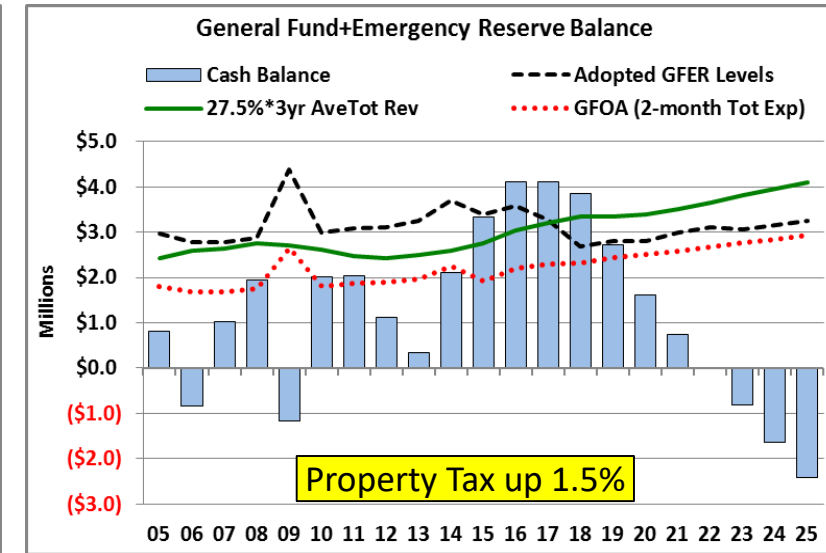
## (Assuming 2% Annual Wage Growth Scenario)



- 50 new hotel rooms
  - \$300 per night average
  - 75% occupancy rate
  - 10% substitution effect,
- Open July 1, 2019
- City receives 100% of net \$388,000 in new TOT revenue at 10% rate



- \$50,000 in net annual tax revenue from new sales tax generator
- Open July 1, 2019
- City receives 100% of the new sales tax revenue from 1% uniform rate (plus \$25,000\* from Measure Q's 0.5% rate)



- \$50,000,000 in new assessed value
- On January 1, 2019 assessment roll for FY 2019-20
- City receives 11.8% of the \$500,000 in new tax revenue under Prop 13's 1% uniform rate, or \$59,000

\*may vary depending on nature of business given differences in local transactions and use tax base

# Forecasts for Other Funds

Measure Q Sales Tax

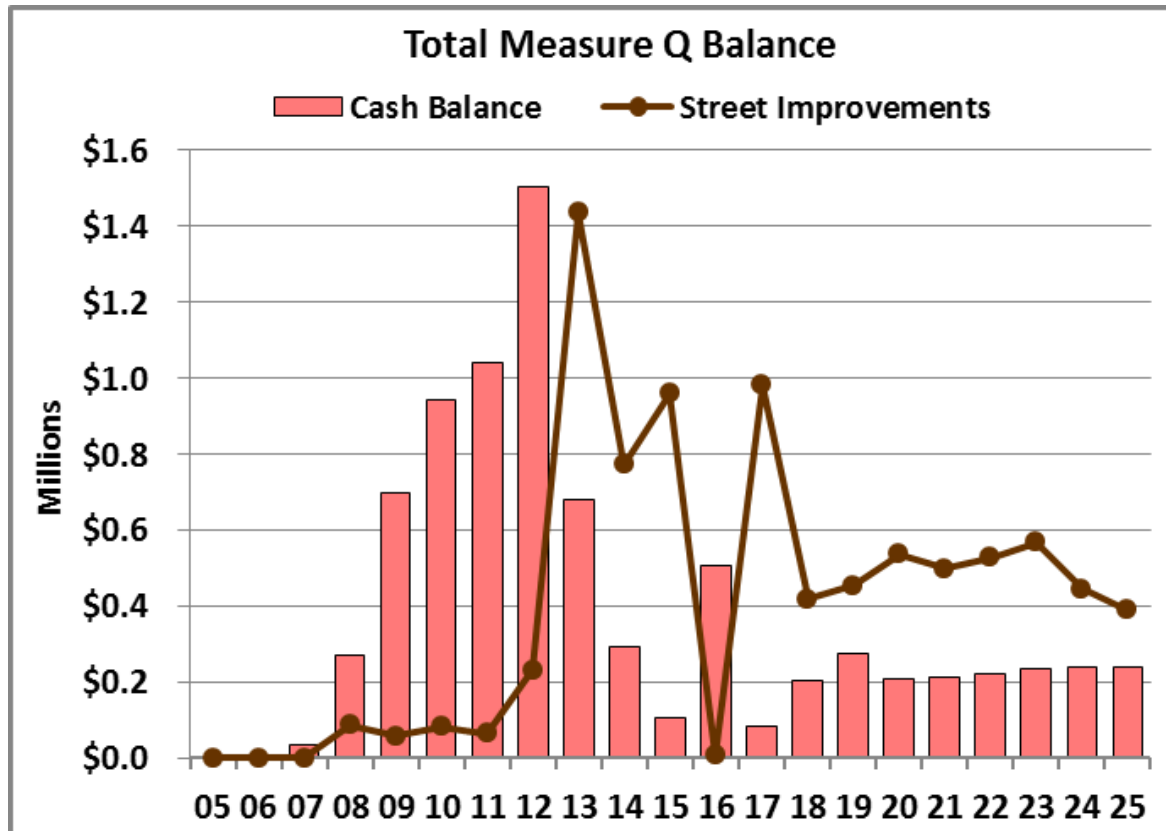
Harbor Funds

Utility Funds

Internal Service Funds

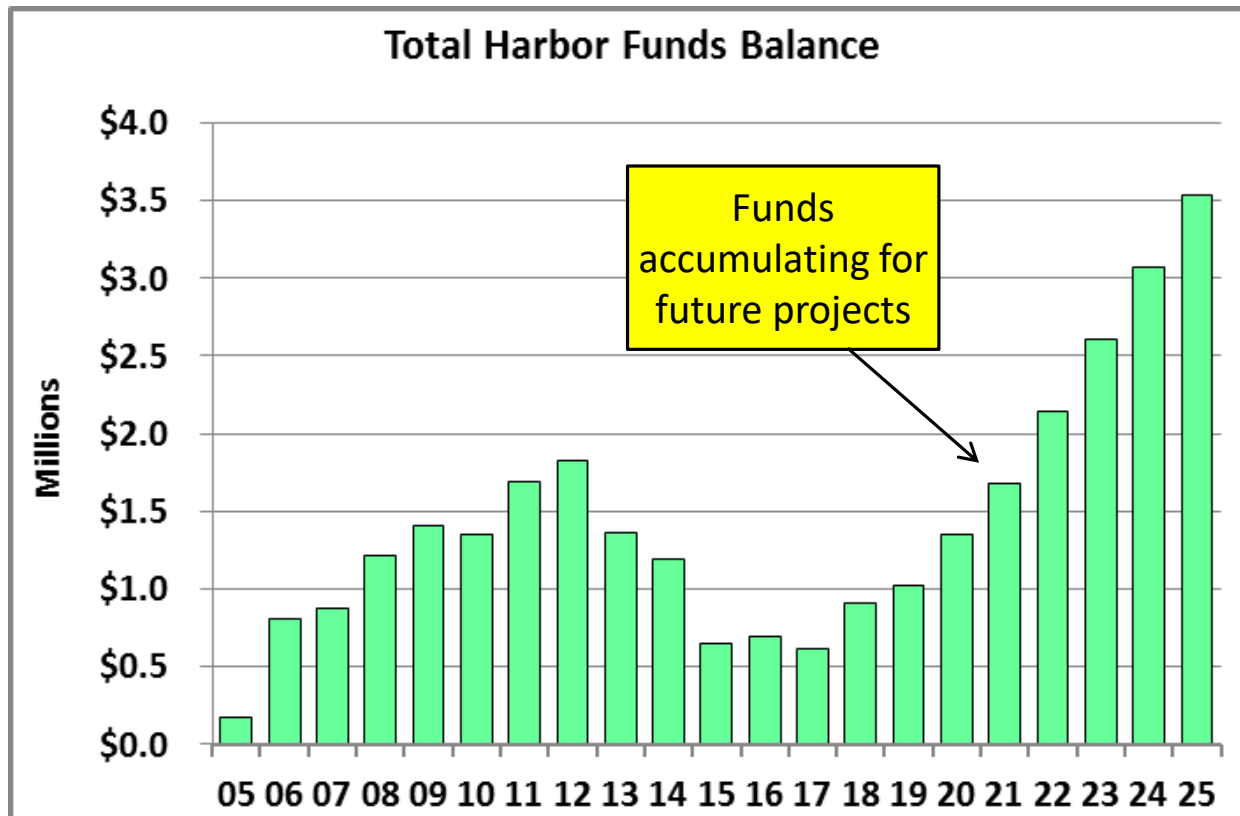


# Measure Q Sales Tax



- Sales tax based on HdL forecast
- Continuation of current commitments
  - Staffing levels
  - Fire overtime
  - Debt service
- Includes fire vehicle replacement through future leases
- Street costs stabilize at \$400 to 600K/year
- Fund maintains 20% reserve
- Uncertainties
  - Street and fire equipment needs (costs may be greater)
  - Potential for increase in street funding from state or federal governments

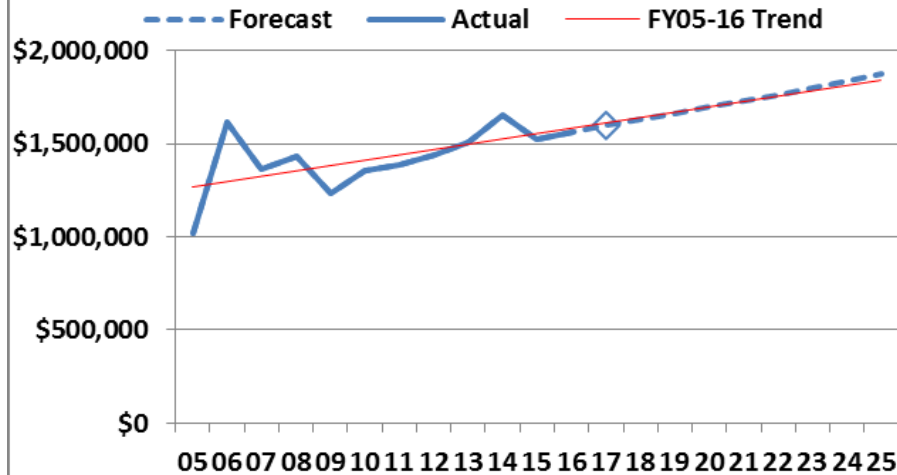
# Harbor Funds



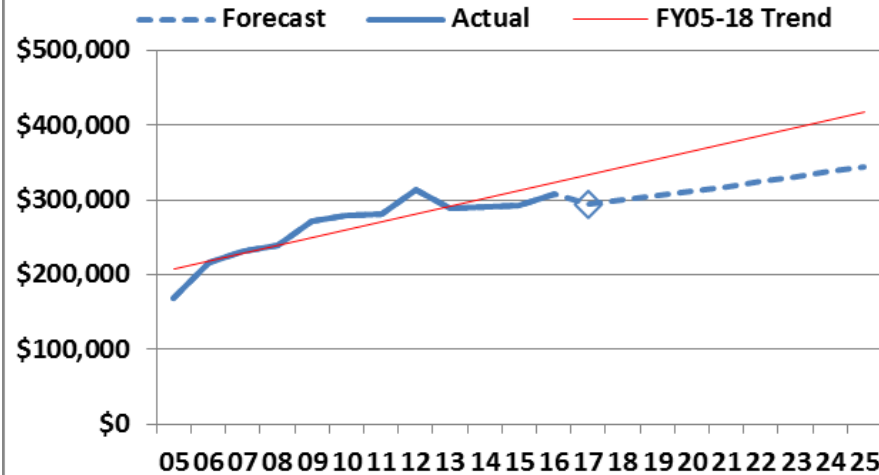
- Budgeted capital projects spread over next three years to ensure adequate balances
  - No subsidy required from General Fund
  - State Park Marina continues to accrue funds for future repairs
- Current staffing levels maintained
- Other operations and maintenance costs built on FY 2016-17 budget, growing at CPI
- Uncertainties:
  - Harbor Commission input on capital projects
  - Longer-term capital needs have yet to be determined

# Harbor Revenues

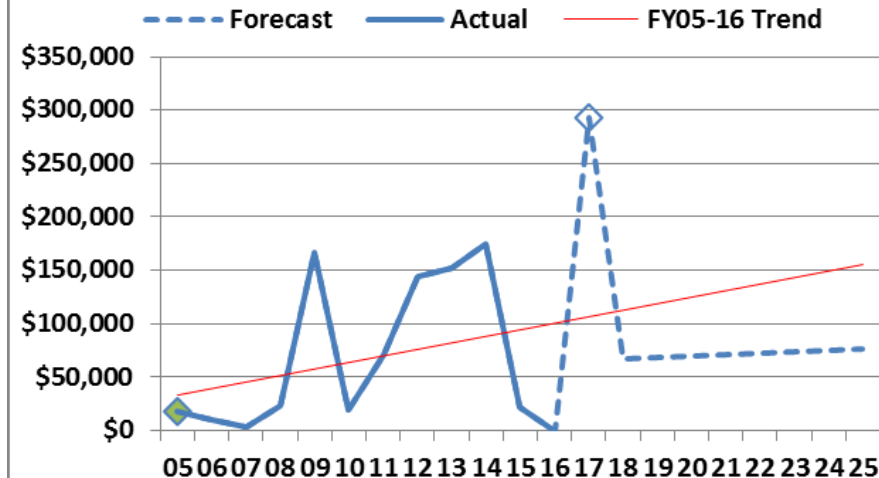
## Harbor Leases



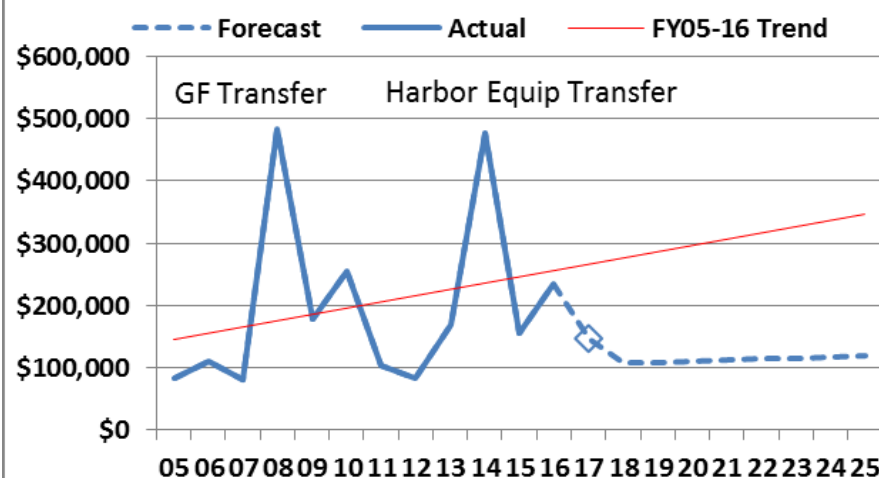
## T-Piers, Mooring & Slip Rentals



## Federal/State Grants



## All Other Operating Fund Revenue



- Harbor leases are largest source (72% average last 10 years), with stable growth
- Grants (4%) are volatile, therefore can't be counted upon
- T-Piers/Rentals (14%) are relatively stable overall, but slower growth rate recently than in past years
- All Other (10%) are relatively flat (except transfers)

# Harbor Projects

## 5-YEAR CIP FROM FY 2015-16 ADOPTED BUDGET

Project	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020+	Totals	Replace in
Maint Bldg/Oil Yard	2,000	2,000	2,000	2,000	42,000	50,000	2040
Harbor Office	10,000	490,000	500,000	500,000	1,000,000	2,500,000	
North T-Pier HP Slips	35,000	35,000	35,000	35,000	210,000	350,000	2025
Beach Street Slips-North	340,000	-	-	-	-	340,000	
Beach Street Slips-South	225,000	-	-	-	-	225,000	
Dune St Slips	45,000	45,000	45,000	45,000	270,000	450,000	2025
Harbor End Dock/Pier (Galley Rest)	-	4,375	4,375	-	-	8,750	
MBB St End Dock (Marina Sq)	-	4,275	8,750	-	-	13,025	
Mariner Park Dock/Pier (Estero)	-	2,500	2,500	-	-	5,000	
Tidelands Park Side Tie Dock	15,000	15,000	15,000	15,000	120,000	180,000	2027
Launch Ramp Slips North	42,000	42,000	42,000	42,000	252,000	420,000	2025
Launch Ramp Slips South	22,000	22,000	22,000	22,000	132,000	220,000	2025
<b>Totals</b>	<b>736,000</b>	<b>662,150</b>	<b>676,625</b>	<b>661,000</b>	<b>2,026,000</b>	<b>4,761,775</b>	

## FY 2016-17 ADOPTED BUDGET

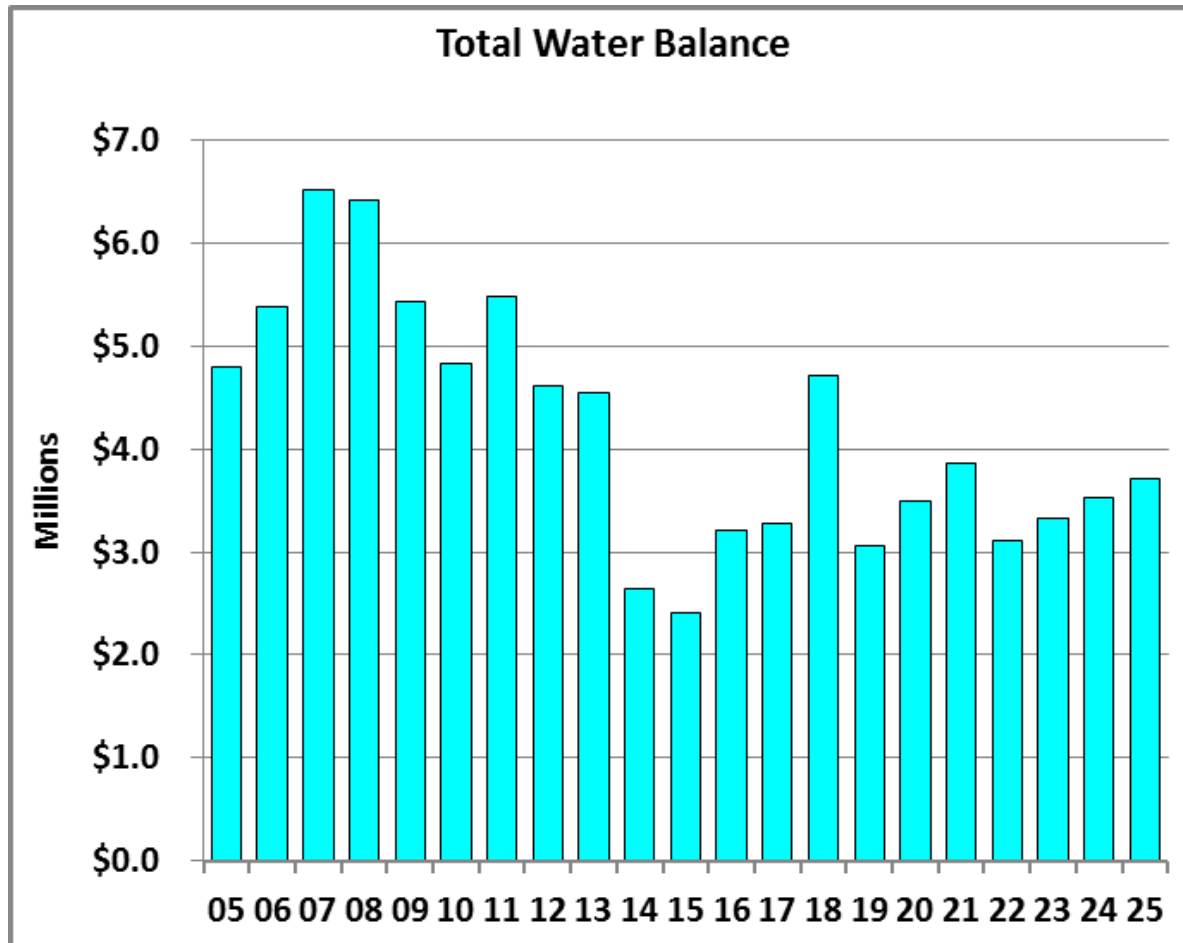
Project	FY 2017	Source
Beach Street Slips-North	340,000	Harbor Accum
Beach Street Slips-South	225,000	Harbor Accum
Boat-Repair/Storage Yard	55,576	Harbor Accum
Fish Cleaning Station	25,000	Harbor Accum
Ice Machine	60,000	Grant
South T-Pier Structural Assessment	20,000	Harbor Accum
<b>Totals</b>	<b>725,576</b>	

## FEB-2017 FORECAST

Project	FY 2017	FY 2018	FY 2019	Totals
Beach Street Slips-North	-	340,000	-	340,000
Beach Street Slips-South	-	-	225,000	225,000
Boat-Repair/Storage Yard	55,576	-	-	55,576
Fish Cleaning Station	25,000	-	-	25,000
Ice Machine	60,000	-	-	60,000
South T-Pier Structural Assessment	20,000	-	-	20,000
<b>Totals</b>	<b>160,576</b>	<b>340,000</b>	<b>225,000</b>	<b>725,576</b>

- Plan for eventual replacement of major facilities shown in latest adopted CIP
- Selected projects are based on current budget
- Forecast spreads projects over 3 years to maintain adequate cash flow and reserve

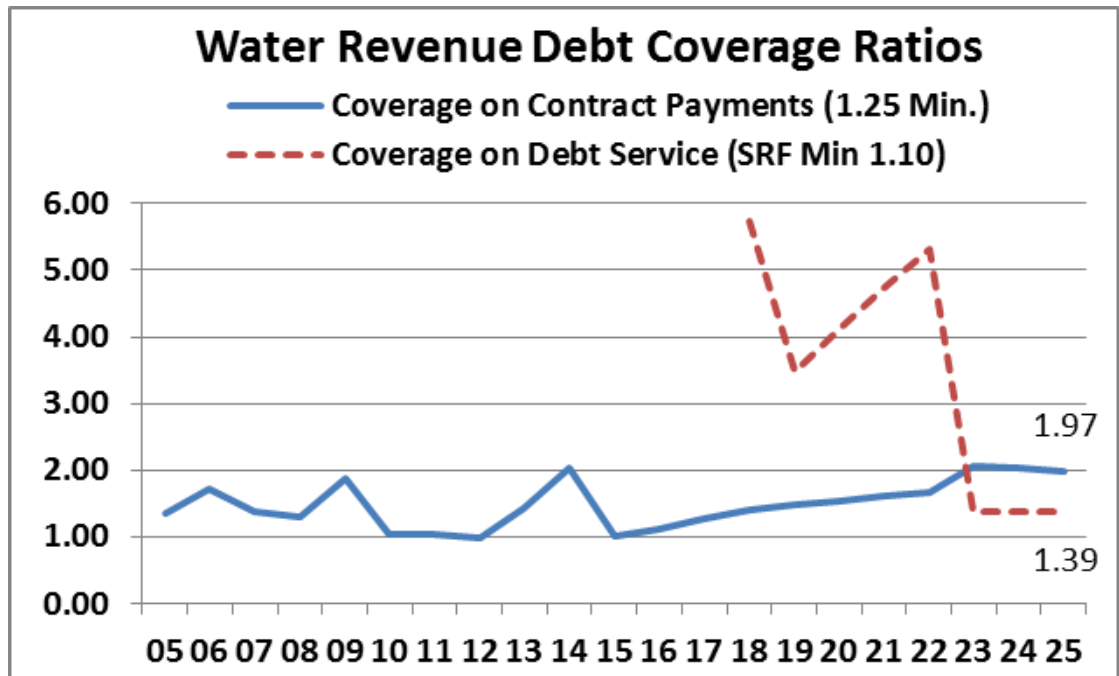
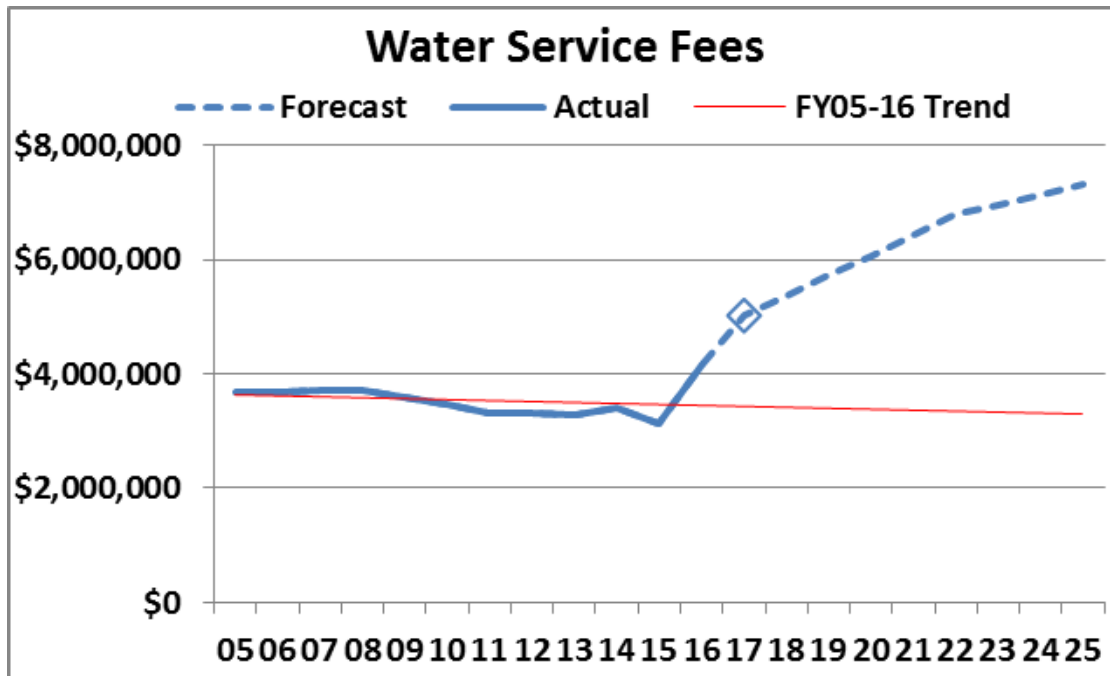
# Water Utility



- Results in sync with 2015 Bartle Wells (BW) report
- Water user fee estimates per BW
- Current staffing levels maintained
- Other operations and maintenance costs build on FY 2016-17 budget, growing at 3%
- Capital costs per BW study
- Stable balance around \$3M
- Revenue coverage requirements met
- Uncertainties:
  - Future water consumption patterns can have significant effect on revenues
  - Market risks on bonds, potential capital cost overruns

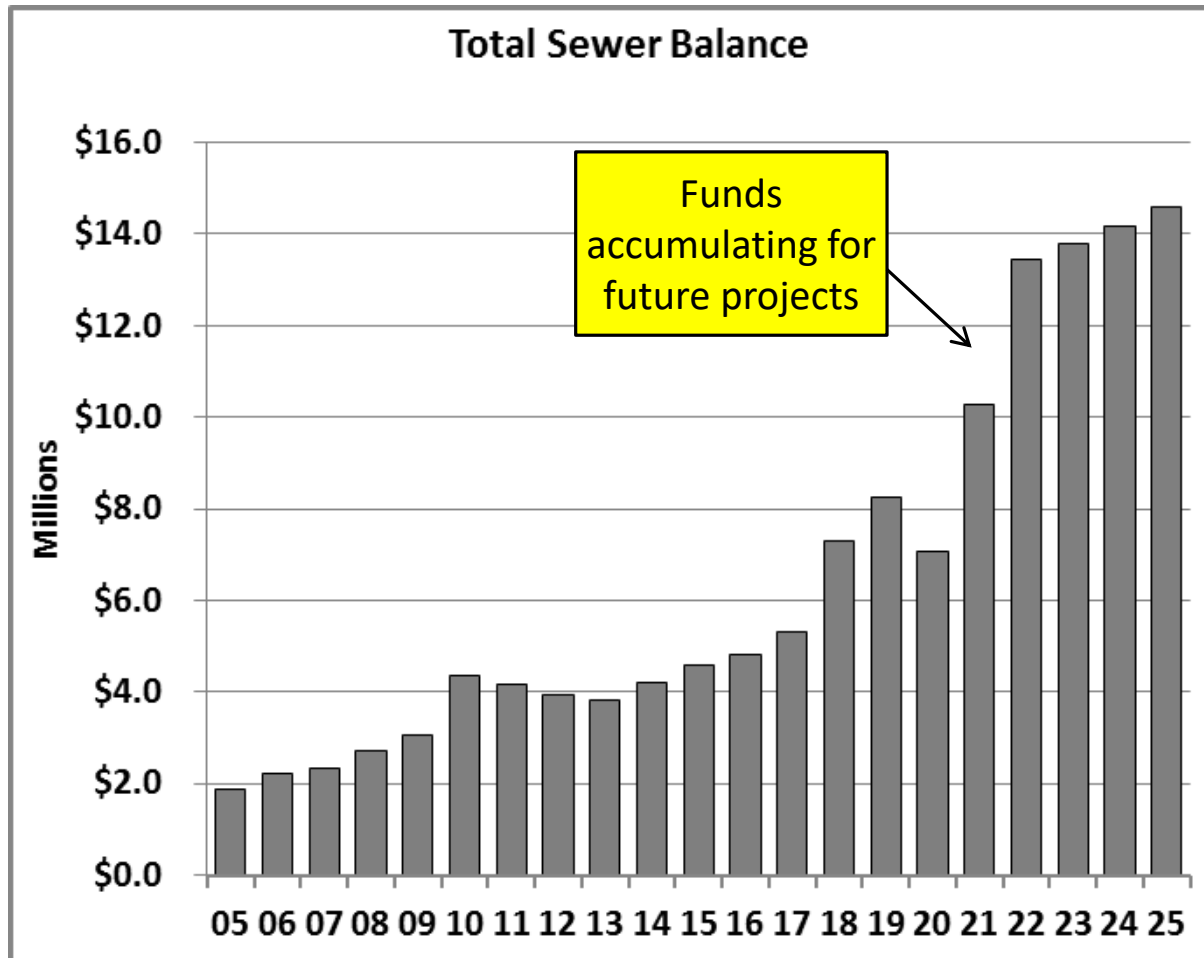


# Water Utility



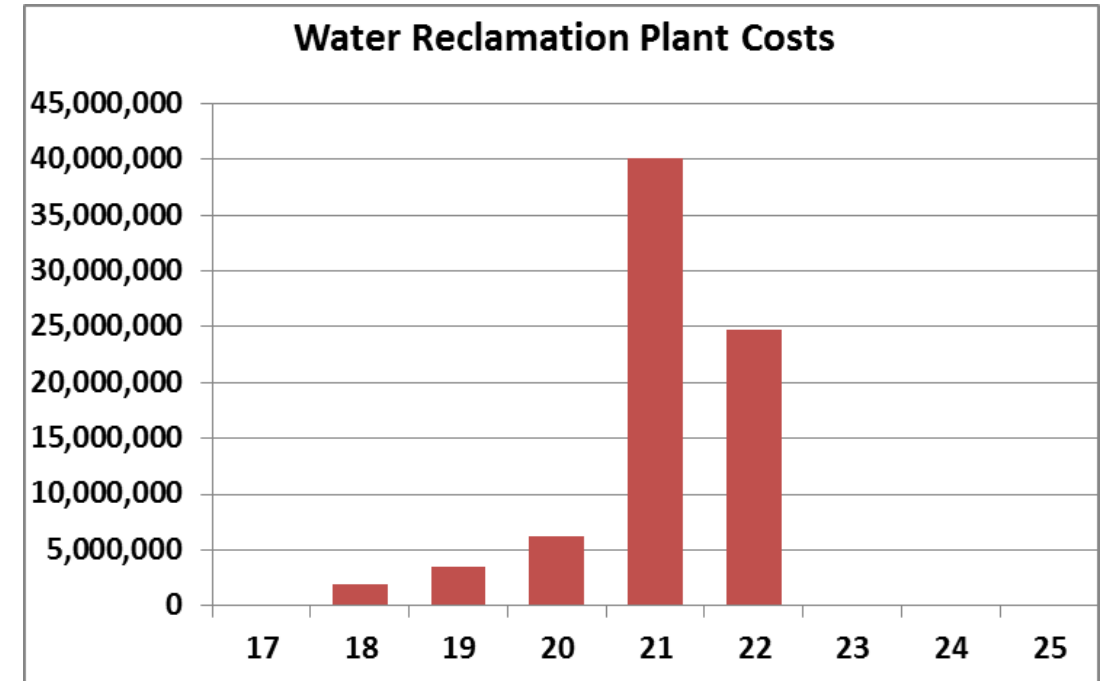
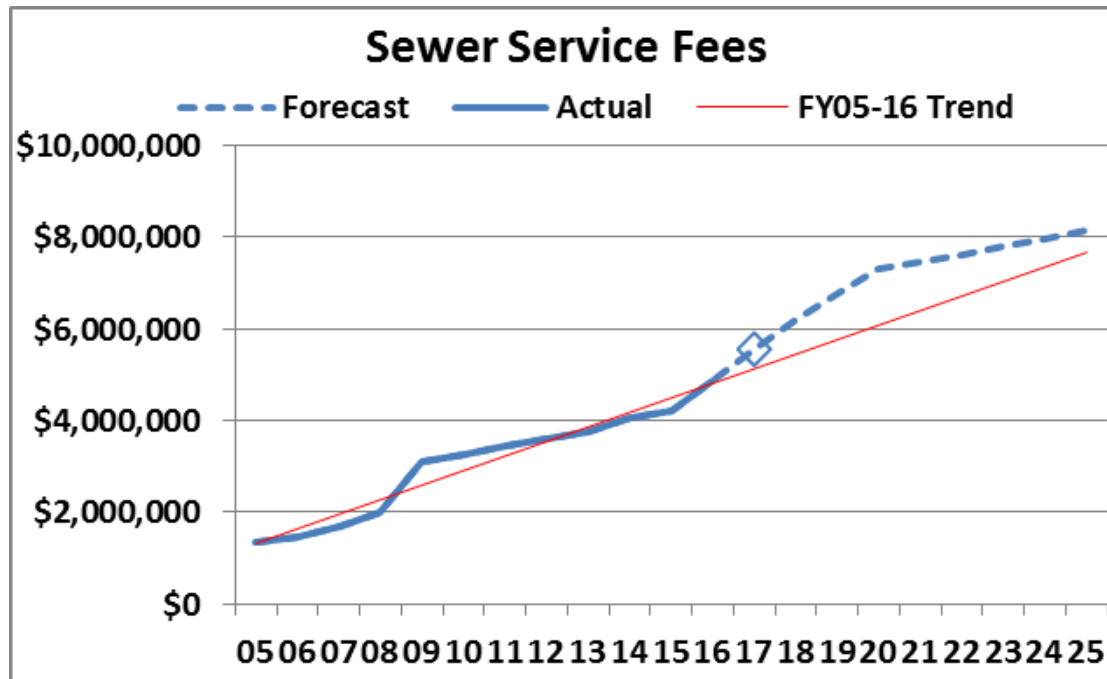
- Fees reflect planned increases (BW report)
- Assumes \$28M in new debt to finance \$34.6M in capital projects, including \$25M for recycled water plant

# Sewer Utility



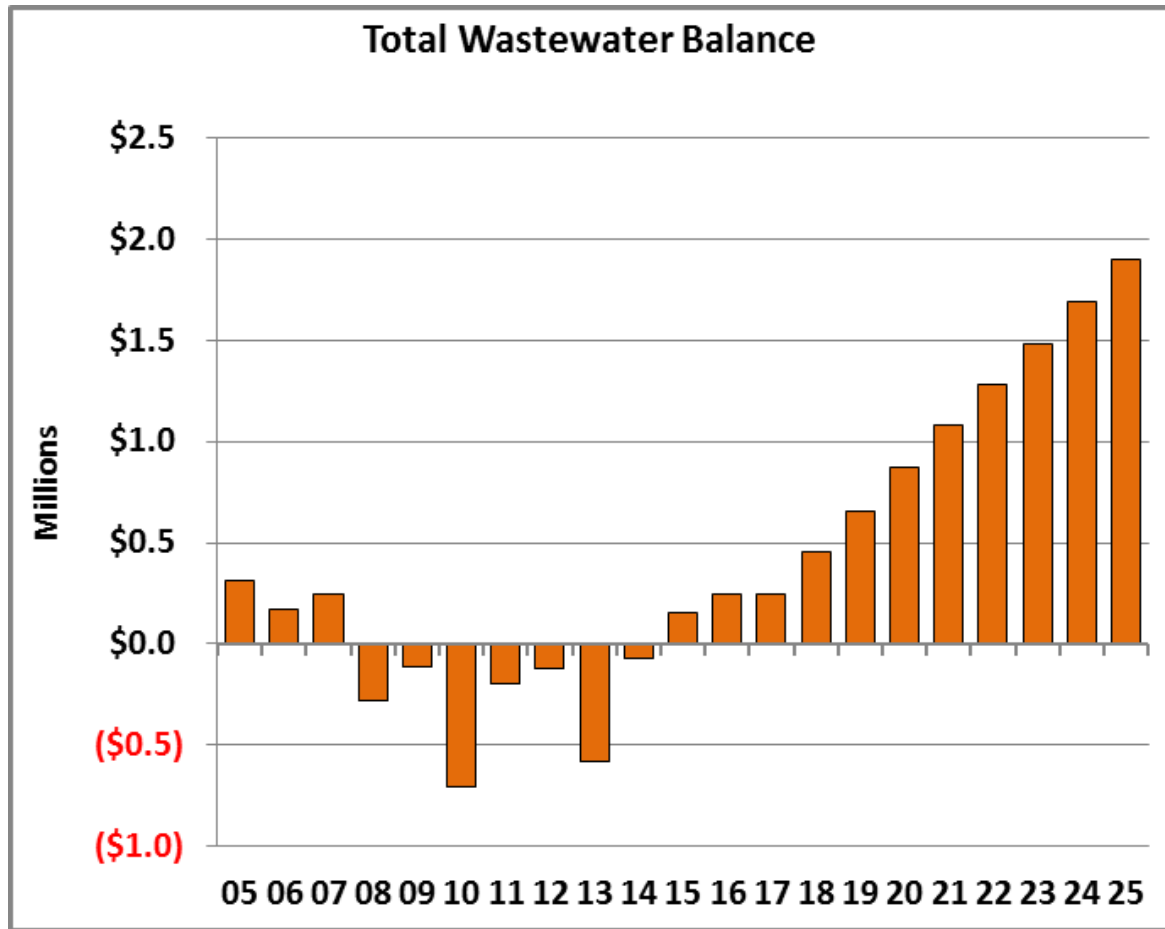
- Results in sync with Bartle Wells report
- Sewer user fee estimate per BW
- Current staffing levels maintained
- Other operations and maintenance costs build on FY 2016-17 budget, growing at 3%
- Capital costs per BW study
- Balance stabilizes around \$14M (rate increase was sufficient to fund planned capital program with contingency)
- Revenue coverage requirements met
- Uncertainties:
  - BW report assumed Cayucos SD would participate in plant, but City absorbs entire cost if they do not
  - Market risks on bonds, potential capital cost overruns

# Sewer Utility



- Fees reflect planned increases (BW report)
- Assumed \$75M in new debt to finance water reclamation plant with CSD participation
- Plant will have to be re-scaled and new financial plan developed

# Wastewater Utility



- Wastewater user fees assumed to grow at 3% from FY 2016-17 budget level
- Current staffing levels maintained
- Other operations and maintenance costs build on current budget, growing at 3%
- Capital projects based on old BW report; BW update in progress
- Balance grows slowly, but steadily, reversing past trend of deficits
- Uncertainties:
  - New plan will change capital costs and rate structure may need to change as well

# Internal Service Funds

- **Technology –**
  - Zero balance
  - GF provides 97% of support for this fund
  - No costs included for application upgrades pending preparation of long-term technology plan, which may boost costs above level projected
- **Facility Maintenance –**
  - No GF support at present
  - Continuation of property income to support these costs
  - GF would be backup source of funding if lease income is lost
  - City requires long-term plan for facility maintenance, which may boost costs above level projected
- **Vehicle Replacement –**
  - Zero balance
  - GF provides all support for this fund
  - City lacks formal long-term vehicle replacement plan, so replacement costs may vary from estimates in forecast
- **Fire Equipment –**
  - Zero balance
  - GF provides 25% of support for these costs, with the rest from grants/donations/other
  - GF support will increase to extent outside funding does not occur
  - Based on long-term assessment by Fire Department of replacement needs
  - Measure Q pays lease payments for future fire engine replacements

# Budget Model Demo

